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C O N F I D E N T I A L SECTION 01 OF 04 BAGHDAD 005153

SIPDIS

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E.O. 12958: DECL: 12/28/2015

TAGS: [ENRG](#) [EPET](#) [EFIN](#) [MASS](#) [MOPS](#) [IZ](#)

SUBJECT: IRAQI OIL SECURITY IN DISARRAY

REF: BAGHDAD 5132

Classified By: Acting Deputy Chief of Mission David C. Litt for Reasons
1.4 (b) and (d)

1. (C/REL MNF-I) SUMMARY: The Steering Group for Critical Infrastructure Integrity assessed the security problems in the oil infrastructure and fuel product distribution systems across Iraq. Intimidation of Ministry of Oil (MOO) employees continues to be a problem for both product distribution and repairs to energy infrastructure. Intimidation of the refinery and distribution crews at Bayji refinery and the oil pipeline repair crews is the most immediate problem. Intimidation and repair problems have cut off the crude oil and fuel product flows from the northern fields to Baghdad and exports to Turkey and kept fuel supplies across the nation at critically low levels. DPM Chalabi was quite upset at the ineffective repair capacity of the MOO, the security of the pipelines, and the ineffectiveness of the Oil Protective Forces. Chalabi interrupted the meeting frequently with telephone calls to key members of the Ministry of Oil to attempt to resolve the problems and find solutions. END SUMMARY.

2. (SBU) Deputy Prime Minister (DPM) Ahmed Chalabi chaired an impromptu meeting of Steering Group for Critical Infrastructure Integrity December 28, 2005 to receive an update of infrastructure security and repair actions and the distribution security problems at Bayji refinery. The Minister of Oil (MOO) Director General for the Oil Protective Forces Hassan Thwani and MOO Director of Operations Major General Ayad Jassan, Acting DCM David Litt, Deputy Commander of MNC-I MG Parker, IRMO Director of Operations, MNF-I STRATOPS, and ECONOFF attended.

BAYJI REFINERY SITUATION REVIEWED BY DPM

3. (C/REL MNF-I) The Director General of the Oil Protective Forces Hassan Thwani reported to DPM Chalabi that the situation at Bayji refinery was "not good." Hassan explained that the armed forces in the vicinity of Bayji refinery are "terrorists who benefit from the smuggling of oil products". These forces have threatened both refinery employees and the drivers of the MOO fuel tankers with death if they support the distribution of refined oil products. The threats are delivered inside the grounds of the refinery, as well as outside.

4. (C/REL MNF-I) Chalabi said the 36 tanker trucks sent from Baghdad on December 27 (reftel) were not loaded with fuel and did not return to Baghdad, but rather are all currently locked within the Bayji refinery protective wire perimeter, and the drivers have returned to Baghdad. On December 26, nine tankers were sent out for local deliveries of fuel, and all were reportedly turned back by armed blockaders. On December 27, the nine tankers again attempted to depart; eight were turned back and one passed through the blockade. These fuel convoys were reported to have been guarded by the Oil Protective Forces (OPF); however, IEDs were set off, injuring people and turning back the convoys. The morale of the drivers was reported to be low. All civilian trucking firms also have halted deliveries from Bayji refinery, and thus the refinery is effectively closed.

5. (C/REL MNF-I) The DGs requested that the DPM support their request to MNF-I for aerial reconnaissance over Bayji to assess the situation. Additionally the DGs requested MNF-I forces to help guard the convoys and patrol the route to Baghdad. We responded that guarding a convoy solves the problem for only one day. The heart of the matter involved criminal activities at Bayji that Iraqi authorities must deal with. The DPM agreed and told the DGs he needed the names of the perpetrators and those threatening the MOO employees at Bayji, so that they could be arrested and prosecuted under appropriate laws. (NOTE: On December 27 Chalabi had informed us that he had called the Governor of Tikrit and asked the Governor that the police forces be deployed to solve the problems at Bayji. This action does not appear to have occurred. END NOTE.) The DGs ended their report to the DPM by stating the OPF cannot handle the situation and they needed MNF-I/Coalition support. Specifically the DGs requested support from the 4th and 9th Iraqi Army Divisions,

as they strongly stated the Ministry of Defense support was required. Chalabi reiterated that security aspects of this problem would be taken care of, but they and other Ministry officials had to start by doing their jobs.

CONFRONTATION AT BAYJI CAUSED BY PRICE RISE FOR FUEL

16. (SBU) The DPM explained that there was not/not a groundswell of revolt against the new prices for fuel across Iraq; however, "the threats and the blockade of the Bayji distribution system came as a direct result of the fuel price increases instituted by the government to reduce subsidies and discourage smuggling and black market activities in Iraq.

The rise in cost of a truckload of fuel from \$400 to \$4000 has greatly reduced the profitability of the chain of smuggling and black market operations. The resale value of a truckload of fuel remains at \$8000." Thus price increases had greatly reduced the profit margins for smuggling and black marketing. The DPM stated that the government had done the right action in raising prices of fuel and would hold firm on the price increases. The DPM commented there were continued discussions in Basra over the fuel price increases.

He said that the A/DCM's information from Basra that the governor would enforce the price increases January 1 was consistent with his information.

FUEL SUPPLIES

17. (SBU) The DPM stated that there were 80 million liters (20 million gallons) of fuel in the storage tanks at Bayji Refinery, while Baghdad and the rest of the country were almost out of fuel. He said Bayji was capable of producing 15 million liters (almost 4 million gallons) of fuel per day, and this production could save Iraq millions of dollars per day over the costs of imported fuel. Chalabi said that, fortunately, demand in Baghdad had dropped from 10.5 million liters (2.75 million gallons) per day to 5.5 million liters (1.5 million gallons) per day. If the fuel from Bayji could be transported to Baghdad it would solve supply constraints in the capital and show that the government was a responsible and capable entity. He told the DGs from the MOO that "This is our exam-- can we Iraqis take care of our problems?"

INFRASTRUCTURE PROTECTION AND PIPELINE REPAIR STATUS

18. (SBU) The 22-inch product pipeline from Bayji refinery to Baghdad was suggested in discussion as the more important alternative to the trucking of fuel to Baghdad. This is the pipeline that was found to be leaking in the vicinity of the Thar Thar Canal on December 25. Fixing this line must be a priority. The DPM said repairs were underway; however, the repair crews were not scheduled to complete it in the near future, and intimidation of the repair crews had been reported. The DPM called the DG of the Oil Pipeline Company and directed him to bring in crews from "outside the area" to complete the repairs on the 22-inch product line to Baghdad as well as to repair the newly broken 26-inch Kirkuk-to-Bayji pipeline, which provides oil feedstock to Bayji refinery as well as for northern exports. (NOTE: The 26-inch pipeline was the only current path for moving oil from the Kirkuk oilfields to Bayji or for export. This pipeline was reported leaking on December 26 and on fire in the area near the break. It is expected that it will take several days for the pipeline to drain before repairs can begin. Until the pipeline is repaired, no oil will flow out of Kirkuk by pipeline. END NOTE.) "Out of area" crews were requested to avoid intimidation of repair crews from the local areas. The local repair crews will no longer go out and repair the pipelines. We suggested it would also be important to repair the crude oil pipeline to Daura refinery, as it is operating at only 30 percent capacity due to a lack of crude oil normally supplied by the 18-inch line from the south.

19. (C/REL MNF-I) The DGs from MOO complained to the DPM that some officials in the PJCCs (Provincial Joint Coordination Centers) were not responsive to their requests for security support for repair operations. The DPM suggested that the problem may be at the Ministry of Oil; the leadership does not care about doing their job, and they are not being held responsible or accountable for the tasks of repairing the pipelines. This was clearly the case from the various phone calls Chalabi had made in our presence to the relevant MOO officials. The DPM informed the participants at the meeting it was embarrassing not to be able to solve this problem internally within the Ministry of Oil. Chalabi then told the OPF DG that the Iraqi MOD must assist in solving the security problems of the oil infrastructure protection.

REPAIR PRIORITIES

110. (C/REL MNF-I) The DPM then prioritized the tasks for repair of the pipelines. First priority is the 22-inch product pipeline from Bayji to Baghdad. The second priority is to fix both the 26- and 40-inch pipelines from Kirkuk to Bayji, thus providing some redundancy on that critical corridor. The final high priority repair is the 18-inch crude oil pipeline to Daura refinery south of Baghdad. The DPM directed double pay for the repair crews who are deployed to these critical sites. MNC-I deputy commander said that security for the repair crews was in place; the PJCC should coordinate the security requirements for each crew as it is identified.

MOD INVESTIGATION REPORT

111. (SBU) Chalabi reported to the committee that the MOD had completed an investigation led by General Abadi on the director of the Strategic Infrastructure Battalions (SIBs) Al Jabouri. Al Jabouri was charged with the illegal activities of skimming 900,000,000 Iraqi Dinars (USD 600,000) from the salaries and life support funds of the SIBs. Al Jabouri would be prosecuted and ordered to repay the stolen funds.

EXPORT AND IMPORT CONCERNS AT THE PORT

112. (SBU) Chalabi informed the committee that the GOI had decided to buy three additional tugs to use in the southern port of Basra. These tugs would support the requirements of maneuvering ships in adverse weather, enabling better use of the export oil facilities. They are often shut down at present during bad weather due to a lack of tug boat support to move ships safely in and out of berths. Chalabi also said the addition of these tug boats would reduce the risk premiums foregone by the buyers of Iraqi oil, thus increasing the revenue for the GOI. He also said the GOI had successfully broken the back of the gangs which had controlled the wheat shipments at the port-handling facilities in the south at Umm Qasr.

EXPANSION OF OIL PRODUCTION

113. (SBU) Chalabi emphasized to the committee the importance of bringing 300 additional oil wells in the Basra region on line. He said that bringing these wells on line would add an additional 600,000 barrels of oil per day to Iraqi exports. These additional exports were required due to the falling price of oil and his concern for stability of the GOI budget.

114. (SBU) We suggested that privatization of the oil sector and encouraging foreign direct investment in Iraq would also increase oil production and revenues for the GOI. We explained to the DPM that foreign firms, including U.S. companies, would be likely to invest in Iraq even with the ongoing security problems if the legal framework for investment was established. Chalabi agreed, saying the Council of Ministers had forwarded to the National Assembly a law authorizing the privatization of downstream oil activities in Iraq, especially retail sales and refining operations. The legislation approved by the Cabinet had not passed the legislature because of the adjournment for the election. However, the budget for 2006 was based on passage of the privatization of the downstream oil sector law. (NOTE: Chalabi did not specifically mention any progress on a general petroleum law. END NOTE.)

CONCERN FOR OIL EXPLORATION AND FAIR PLAYING FIELD

115. (SBU) Chalabi described his concern for maintaining a fair playing field for foreign investors. He said 38 contracts had been let by the previous government for oil field and reservoir studies. The firms which had these study contracts would have a very unfair advantage over other firms competing in the Iraqi upstream oil sector. He stated the firms which had this knowledge would know exactly what reserves were in those fields they had studied and would not share that information with competitors. This would make for unfair competition.

116. (SBU) Chalabi closed the meeting by saying the Bayji issue must be rapidly solved. It was agreed by the committee that a helicopter would be provided on December 29 for an assessment to be made on-site at Bayji refinery by an Iraqi team consisting of the DGs from the MOO and a representative from the MOD. Chalabi said he needed support from MNF-I and that visible ground presence in the vicinity of Bayji would be of great assistance. A follow-up meeting was designated

for January 4, 2006.

COMMENT

117. (C/REL MNF-I) COMMENT: The infrastructure security meeting was a reflection of the frustrations of the DPM with the state of his own oil ministry's capabilities and commitment. He openly discussed and characterized the weaknesses of the Ministry of Oil senior management. His disappointment over the ability of the GOI to commit reliable repair crew assets to the critical infrastructure and to coordinate security and repair operations was evident. END COMMENT.
KHALILZAD